STANDARD & POOR'S

RATINGSDIRECT®

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Summary:

Newport Beach, California Newport Beach Assessment District No. 69 (West Newport); Miscellaneous Tax

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Credit Profile		
Newport Beach, California		
Newport Beach Assessment Dist. No. 69 (West Newport), California		
Newport Beach (Newport Beach Assessment Dist. No. 69 (West Newport)) misc tax dtd 09/01/2004 due 09/02/2005-2019 (RADIAN)		
Unenhanced Rating	A-(SPUR)/Stable	Upgraded

Many issues are enhanced by bond insurance.

Rationale

Standard & Poor's Ratings Services raised its Standard & Poor's underlying rating (SPUR) on Newport Beach, Calif.'s miscellaneous-tax limited-obligation improvement debt, issued for Newport Beach Assessment District No. 69 (West Newport), one notch to 'A-' from 'BBB+' due to the maturation of a fully built-out, wealthy residential district with a high value-to-lien ratio that will likely maintain low delinquency rates.

The SPUR also reflects the district's:

- Annual assessments that are small compared to individual parcel values, and
- Rapid 11-year amortization schedule.

The above strengths mitigate concerns about the district's:

- Small size;
- Relatively small debt service reserve fund subsidized at 5% of principal; and
- Inability to increase assessment rates, a factor in all similar ratings.

A pledge of special assessments owed by residents and parcel owners within the assessment district created by Newport Beach in 2004 secures the bonds. Pursuant to the Improvement Bond Act of 1915, annual assessments are liens on assessed parcels to provide 1x coverage of the bonds issued to finance the removal of aboveground utility poles and wires and relocating them underground. More than 60% of parcel owners approved the assessment district.

The district is in Newport Beach west of the highway along Newport Beach Bay. Wealth levels throughout Newport Beach are very high: Median household effective buying income is 175% of the national average.

Assessment District No. 69 (West Newport) is an entirely residential area that covers 51 acres and includes 362 parcels with assessments that secure the bonds. Single-family homes account for 80% of assessments due while condominiums account for 14% and apartments 6%. Annual assessments on parcels are small compared with the assessed value of property within the district; a typical annual residential assessment of $1,277 in district No. 69 accounts for roughly 0.13% of average home value. The overall value-to-lien ratio is strong at roughly 45-to-1,

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including overlapping debt. All parcels have value-to-lien ratios in excess of 5-to-1. Management does not plan to issue additional parity debt.

The district is diverse in terms of individual parcel owners' assessments as a percent of total assessments due. A multifamily property, the leading property owner, accounts for 5.5% of the total fiscal 2008 levy; the three leading property owners combined account for 7% of the levy.

The bonds mature in 2019, and a reserve fund subsidized at 5% of principal for both series provides further security. The reserve provides enough financial cushion so the district can sustain the loss of 4.5% of assessments annually for the bonds' life without needing to foreclose on delinquent properties by drawing on the reserve since the district cannot increase assessments. Delinquent property taxes in district No. 69 were a very low 0.08% as of September 2007, but delinquencies rose to a still-minimal 1.37% as of February 2008.

Outlook

The stable outlook reflects our expectation that the assessment district will retain strong property values, that further delinquencies will remain minimal, and that management will not issue any additional parity debt.

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